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**Board of Directors
Fourteenth Annual Study
February 1987**

KORN/FERRY INTERNATIONAL

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Introduction

The director liability crisis is in its third year. But the crisis in the boardroom today does not hinge on liability alone. A scarcity has developed, a real shortage of qualified directors. This shortage, while aggravated by the liability crisis of the past three years, is not about to go away. It raises serious issues that include director work load, responsibility and compensation. If the board of directors is to survive in its present form, these issues must be addressed. Consider the following disquieting news:

- Seventy-one percent of the chairmen surveyed believe there is a problem finding and attracting qualified outside directors.
- Seventy-seven percent say that the problem has not diminished since last year.
- More than one out of five companies (22 percent) reported that a prospective director had refused the offer of a board seat.
- Of those companies experiencing such a refusal, 29 percent were turned down more than one time.

These statistics come from America's most significant corporations. Quite simply, corporate America believes that there is not enough talent to go around. Our study indicates that:

- Seventy-four percent of the corporations surveyed already have CEOs sitting on their boards.
- Ninety percent of the companies surveyed define "broad management experience" as the most critical factor in selecting board members.
- Fifty-nine percent place a premium on personal stature.
- Finally, 36 percent of the CEOs surveyed said they would not accept any additional board seats.

Major corporations are going after the same narrowly defined group of qualified individuals—namely the CEOs and COOs of other major corporations. And more and more often these executives are saying no.

Half of the chief executives surveyed believe that CEOs like themselves should limit their outside board duties to one or two seats. Ninety-two percent believe that they should not sit on more than four boards. Why

this limit? Because directorships are increasingly being perceived as trouble. The director's job has become more demanding and more time-consuming. Seventy percent of the chairmen surveyed feel that their directors are probing for additional information and initiating extensive discussions on the impact of strategic plans and operations. And this is as it should be. Perhaps we have the turmoil of the liability crisis to thank for these renewed endeavors.

Coming to Grips with the Liability Crisis

Shareholder suits and legal actions against boards and/or their directors have been piling up. In response, insurance companies raised D&O premiums for 82 percent of the 532 companies we surveyed. Premium boosts averaged 570 percent! This followed a 362 percent jump in rates the year before. Many companies faced their second consecutive hike in two years. To make matters worse, half of those surveyed were paying more but getting an average of 43 percent less coverage. In many cases, policies were rewritten with exclusions incorporated to severely limit the types of claims covered. And a significant number of policies were not renewed or were cancelled.

As the crisis intensified, we witnessed corporate America beginning to grapple with these problems. Indeed, the worst may well be behind us. Some headway was made through such laws as the Delaware statute that allows companies to limit or even eliminate financial liability for directors in cases where it can be shown that they did not deliberately act in bad faith.

In our current study, we found that 77 percent of the CEOs surveyed believe that the Delaware statute will at least partially rectify the crisis in the boardroom. Numerous companies incorporated in Delaware are planning to ask their shareholders to amend the bylaws in order to limit director liability, as are many respondents in other states where similar legislation is expected to be enacted.

For the time being, at least, it seems that the boards have weathered this crisis. And they seem to have learned a great deal from it. They have become more involved in a number of areas. This year, 73 percent said they have been concentrating their efforts on maximizing shareholder value, and 52 percent are probing for more information about the quality of the company's product or service. Employee relations and foreign competition are also matters now routinely treated at the board level, as are the selection of new board members, audit reviews and management succession.

Serious Work, Hard Work, Important Work

Of necessity, the director of the eighties is more involved in the corporation's affairs. The director has become a vulnerable figure who represents the interests of the shareholders and must navigate between

the often conflicting interests of various interested constituencies—management, employees, suppliers, governmental bodies and the community in which the corporation has a stake.

It's been a very long 10 years since a directorship was considered a ceremonial post, akin to club membership. It is serious work, hard work and important work.

But, until recently, board seats were considered easy-to-fill sinecures, and evidently corporations are not yet accustomed to regarding a directorship in the same light as an executive position, even though that is exactly what most directorships are.

How can corporations find the kind of responsible, experienced management talent they need in the boardroom? It must be noted that while corporate America routinely turns to executive search to identify top level executives when they don't have an internal candidate, only 12 percent of the companies surveyed report using search for directorships. However, 20 percent of the \$5 billion-and-over companies use executive search to find board members, and historically they have been the trend-setters.

As the demand on the chairmen's time devoted to board matters grows (it now stands at 175 hours a year, up from 160 hours the year before), they will have to look for ways to lighten the burden. And using professional search help to identify prospective directors is one significant way to save time. At Korn/Ferry, we've found that between 40 percent and 50 percent of our executive search work is at the seniormost management levels, for CEOs, COOs and top level general management. This is precisely the pool of qualified individuals who could make tremendous contributions as board members.

The Question of Compensation

Virtually every board member we know says compensation is not the primary issue. And we agree. But some rethinking of compensation issues is in order. There is a striking ambivalence in the attitude of corporations and directors towards the importance of compensation. Three-quarters of the CEOs surveyed believe that directors are adequately paid. (This percentage has fluctuated between 69 and 91 percent since 1983, when the question was first asked.) And yet, despite this expressed satisfaction, the level of compensation continues to increase year after year. In fact, each year, corporations on average increased compensation *more* than they had anticipated the previous year. Over the past decade, directors' fees have increased an average of 19 percent more than projected increases over the same period.

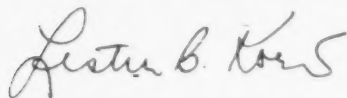
Is the issue of compensation directly related to the search for quality directors? Increasingly, we would answer yes, although not unequivocally. In our survey, the majority of CEOs report that there is a problem finding and attracting qualified directors, and 42 percent feel that

increasing the level of compensation is the way to maintain a high quality board. If directors are being asked to participate more fully in the management process, to perform increased committee work, in a more formalized arrangement, then they should receive commensurate remuneration. We believe compensation can and will be related directly to a busy director's "making time" for these now more onerous duties. Billion dollar companies that consistently have been the trend-setters when it comes to matters of corporate governance pay their directors about 20 percent more than the overall average, to reflect more accurately the reality of their redefined responsibilities. And where they chart a course, other companies can be expected to follow.

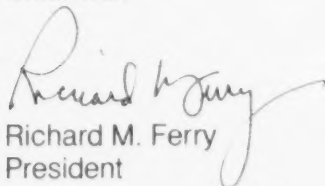
What we now call compensation was referred to, not so long ago, as an "honorarium," that is, a token payment for services more symbolic than real. As the director's job became more serious, the rewards, and of course the risks, for his services were bound to increase. And as competition for talent heats up, higher compensation will be one way for companies to ensure that they are attracting the best.

Interestingly, we are seeing the emergency of a trend illustrative of the evolving relationship between compensation and the enhanced role of the director in the corporation. Stock options for directors, which were largely considered a matter of "conflict of interest" a few years ago, are beginning to gain acceptance as a part of directors' compensation packages. In 1984, 1.1 percent of companies approved of stock options; in 1985 the figure rose to 3.1 percent and now it stands at eight percent. It makes sense.

Today 81 percent of the corporations surveyed think that directors should own some stock in the company. And, in fact, 95 percent report that directors do own some stock. Stock ownership gives directors a real stake in the business for which they are being held increasingly accountable. Owning stock enhances their ability to think like shareholders, and that's good for everyone.



Lester B. Korn
Chairman



Richard M. Ferry
President

February 25, 1987

SUMMARY OF FINDINGS—FOURTEENTH ANNUAL STUDY

On a question-by-question basis, the following are the key findings of the Korn/Ferry International Fourteenth Annual Board of Directors Study.

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 13 directors, a decrease from the 14 members reported last year, but equal to the average of 13 reported in previous years. Board size, however, does vary with company size and type of business. The largest boards are found among banks and other financial institutions, which now average 18 members, although this is a decline from the 20 members reported in 1985. Smaller companies with revenues of under \$200 million have an average of only eight board members, down from 10 last year. The \$5 billion-and-over industrials gained one director, to 15 members.

2. Inside Directors vs. Outside Directors (Table 1)

After eight consecutive years of corporations reporting an average of four inside directors, the number of inside directors declined to an average of three. Outside directors remained at an average of 10, further indicating the strong preference for outside leadership.

3. Is the Chairman Also the CEO? Is the CEO Also the COO? (Table 2)

Seventy-seven percent of this year's respondents report that their chairman is also the chief executive officer, down from 80 percent last year, but the same as reported in 1984 and 1983. This combination of duties occurs most frequently (91 percent) among retailers and among the billion dollar companies (85 percent). Thirty-eight percent of the respondents report that their chief executive officer is also their chief operating officer, up from 36 percent in 1985.

4. Board Composition (Table 3)

Directors are drawn from two primary sources: chief executive and chief operating officers of other companies (74 percent) and retired executives of other companies (67 percent).

Directors from these two sources are even more predominant on the boards of billion dollar companies, 85 percent of which include at least one CEO/COO from another company and 79 percent of which include at least one retired executive from another company. (Senior executives of other companies declined to 46 percent as a result of the addition of the new category "CEO/COO of other companies.") The prevalence of academicians on the board also decreased to 50 percent this year from the 55 percent reported in 1985. Retired or previously employed corporate officers declined as representatives on all boards as did the "professional" director and commercial bankers. Attorneys who do not provide

legal services for the company and major shareholders who are not officers of the company both increased their representation on corporate boards (Table 3A).

Representation among women dipped slightly to 43 percent compared with 45 percent in 1985. Minority membership, on the other hand, increased by five percent, from 25 percent reported in 1985 to 30 percent this year. Women come primarily from the ranks of academia and senior officers of other companies; ethnic directors come from the ranks of academia and chief executive and chief operating officers of other companies (Table 3B).

For the first time insurance company boards report the highest number of women directors (63 percent), and retailers report the greatest number of ethnic minorities (55 percent). For both categories, banks and financial institutions followed, reporting 61 percent and 53 percent respectively.

5. Committees (Table 4)

The most prevalent standing committees in use remain audit (98 percent), compensation/personnel (91 percent), executive (80 percent) and nominating (58 percent). The compensation/personnel committee experienced the greatest percentage gain over the past year, increasing to 91 percent from 82 percent in 1985 (Table 4A).

With regard to the executive and nominating committees in particular, committee use can be correlated to company size. For example, the executive committee is less prevalent among smaller industrials (under \$400 million); only 57 percent have an executive committee compared with the overall average of 80 percent. Eighty percent of the \$5 billion-and-over companies have a nominating committee, while only 37 percent of the smallest industrials (under \$200 million) report its use. Of all companies with nominating committees, 23 percent report its active participation in the management succession process, about the same as last year. The compensation/personnel committee retains the predominant role in management succession, cited by 49 percent, followed by the executive committee (26 percent).

Twenty-five percent of the respondents report a benefits committee, down from 37 percent in 1985. Although 35 percent of all respondents report a finance committee, down from 38 percent last year, 49 percent of the \$5 billion-and-over corporations report its use.

Committee composition has not changed over the past 10 years, averaging between four and six directors. The average number of inside directors for all committees remains the same as in 1985. The average number of outside directors increased by one for the science/technology committee, but decreased by one for the executive committee. In addition to the benefits committee, audit and compensation/personnel committees continue to be composed entirely of outside directors (Table 4B).

The average number of committee meetings per year ranges from two to seven, with the finance committee holding an additional two meetings over last year's average number of five meetings, and two meetings more than all other committees. The audit, executive and corporate ethics committees increased their number of meetings in 1986 by one. The number of meetings for the science/technology committee increased to four, from two meetings reported in 1985 (Table 4C). Thirty-eight percent of all respondents feel that in order to improve productivity, there is a trend towards more committee-assigned tasks.

6. Compensation (Table 5)

As they have been since our study began, directors are predominantly paid on an annual plus per-meeting fee basis, with 83 percent of this year's respondents reporting its use (Table 5A). This method is most widely used by insurance companies (90 percent).

Industrials with \$200 to \$399 million in revenues lead all respondents in adhering to the annual fee only (21 percent). But overall, only 10 percent use this method, the same as in 1985.

At four percent, the per-meeting fee only remains the most infrequent mode of compensation.

Annual Plus Per-Meeting Fee (83 percent of the respondents)

For all outside directors compensated on an annual plus per-meeting basis, the average earnings reported were \$20,462, up from \$19,544 last year. Compensation has risen 20 percent from the \$16,990 average in 1982. Commensurately, the percentage of directors earning under \$11,000 has decreased substantially to nine percent, from 21 percent five years ago. At the same time, the percentage of those earning \$25,000 and over has more than doubled from 11 percent five years ago to 25 percent in 1986 (Table 5B).

The components of the \$20,462 total average annual compensation for all companies includes an annual fee of \$14,096 and a per-meeting fee of \$775, up from an \$11,000 annual fee and a \$627 per-meeting fee five years ago.

As would be expected, the larger the company, the higher the compensation. Directors of billion dollar industrial corporations earned an average of \$24,264 and directors of the \$5 billion-and-over companies earned an average of \$28,820, up from \$26,126 last year.

Industrials with under \$200 million in revenues reported the largest five-year increase in compensation, rising 63 percent from \$8,720 in 1982 to \$14,207 in 1986 (Table 5C).

In 1986, the upper quartile average for all responding directors was \$28,715 (Table 5C). The average upper quartile for billion dollar companies was \$31,025.

Annual Fee Only (10 percent of the respondents)

The average earnings of outside directors receiving only an annual fee increased 23 percent over the past five years, from \$16,100 to \$19,744. This year's average annual fee of \$19,744 was also 10 percent higher than the average fee reported last year. Of the respondents in this category, 46 percent pay \$20,000 and over. Five years ago, there were no outside directors receiving an annual fee above \$20,000.

Per-Meeting Fee Only (Four percent of the respondents)

Only 17 of the 1986 respondents use this method of compensation, generally industrials under \$200 million. The average per-meeting fee was reported at \$1,127, an 84 percent jump over last year's average of \$614, and a 145 percent rise over the per-meeting fee of \$460 reported five years ago.

7. Committee Compensation (Table 6)

Eighty-three percent of this year's participants and 87 percent of the billion dollar companies provided additional compensation to their outside directors for committee service.

For all committees, a greater percentage of members received a per-meeting fee than an annual fee, while a greater percentage of committee chairmen were compensated with an annual fee (Table 6A).

Total Annual Compensation

Including committee fees, the average total compensation for outside directors was reported at \$23,676. As expected, the larger the company, the higher the compensation. Directors of billion dollar corporations earn an average of \$28,686; directors of the \$5 billion-and-over companies earn an average of \$36,548.

The upper quartile average for all responding directors was \$35,960, with averages ranging from \$24,483 for industrials in the under \$200 million category to \$48,428 for \$5 billion-and-over companies (Table 6B).

8. Additional Compensation Information (Table 7)

Thirty-nine percent of participants, the same percentage that did so five years ago, indicated that they increased compensation for their outside directors during the past year, up from 34 percent in 1985. In 1986, the average increase was \$2,923, five percent higher than last year's average of \$2,777, but seven percent lower than the increase posted five years ago. The largest increase was reported by smaller industrials (\$200-\$399 million) who increased board compensation by \$4,107, a 75 percent jump over last year's increase (Table 7A). Twenty-five percent of respondents project a fee increase of an average \$2,757 for 1987 (Table 7B).

Seventy-five percent of this year's participants believe that outside directors are adequately compensated, a decrease from the 84 percent reported last year, but up from 69 percent in 1984.

As in 1985, retailers reported the most satisfaction with director compensation (86 percent).

Twenty-six percent of all respondents have outside directors who receive special consulting fees, up from 23 percent last year.

In 1985, average total compensation for the single highest-paid outside director at each company was \$28,572 for all board services exclusive of consulting arrangements. This represents a 32 percent increase over the \$21,720 reported five years ago. Fifty-five percent of the largest industrial companies (\$5 billion and over) compensate their highest-paid outside directors with payment in excess of \$40,000, as compared with 23 percent last year. The upper quartile average for all directors is \$46,665, up 12 percent from 1985 and up from \$36,550 five years ago. The upper quartile average for the \$5 billion-and-over companies soared to \$81,151, up from \$68,747 in 1985 (Table 7C).

Fifty-nine percent of the participants state that their board chairman has the primary responsibility for establishing board compensation, up from 53 percent the year before. The compensation committee has this responsibility at 38 percent of the companies (up from 33 percent). And in 11 percent of the cases, the nominating and executive committees are responsible (Table 7D).

Benefits

Benefits continue to be significant in compensation plans for outside directors. Accident insurance (41 percent), travel expense reimbursement for spouses and life insurance (each 23 percent) remain commonly included. Forty-seven percent offer matching educational gifts, up from 40 percent in 1982 when respondents were first questioned. Travel expense reimbursement was provided by 92 percent of the respondents compared with 86 percent in 1982. Eight percent offer stock options to their outside directors, up from three percent last year. The practice of providing director's liability insurance decreased to 84 percent from 93 percent in 1985 (Table 7E).

The option of deferring board fees until retirement is offered by a majority of responding companies, 67 percent, about the same as last year, compared with 55 percent five years ago (Table 7E). While only 32 percent of the smallest industrials (under \$200 million) have an income deferral plan, 87 percent of the largest companies (\$5 billion and over) report such an option, up from 80 percent last year.

Twenty-five percent of all respondents provide a pension/retirement plan, up from 14 percent five years ago. This option varies with company size. Thirty-five percent of the billion dollar corporations and 43 percent of the \$5 billion-and-over companies report having a retirement program, compared with only 10 percent of companies with revenues under \$200 million.

Eighty-one percent of respondents believe that all directors should own some company stock, up from 75 percent last year. Of the 81 percent who believe that all directors should own stock in the company, the average minimum number of shares indicated was 724. Ninety-five percent of the participants stated that outside directors do, in fact, own shares of company stock. And in most cases, all of their directors own shares. Company size was not a factor.

Liability Insurance

Ninety-one percent of all participants currently have director liability insurance and nine percent have been denied coverage within the past year. Of the companies whose insurance policies were up for renewal in 1986, 82 percent responded that director liability insurance premiums were increased during the past year, on an average of 570 percent, compared with the 362 percent average increase reported by 68 percent last year (Tables 7F and 7G).

The smallest industrials (under \$200 million) and retailers led all others in the percent of increase, 796 percent and 744 percent respectively, up from 208 and 337 percent, respectively, in 1985. Fifty percent of all respondents experienced a decrease in total dollar coverage, up from 27 percent in 1985. Coverage on average fell 43 percent from \$42 million to \$24 million (Table 7G).

The decrease in total dollar coverage was smallest for retailers, who averaged a 29 percent decline (from \$35 million to \$24 million) as compared to the 43 percent average for all respondents. This may be due, in fact, to the 56 percent decline reported last year by retailers, the highest of all respondents.

Thirty percent of the total respondents are considering self-insurance, compared with 19 percent last year. This figure rises to 46 percent for the \$5 billion-and-over companies. When asked if respondents had been approached to join a consortium for establishing a captive company, 52 percent of all participants and 65 percent of the billion dollar companies reported in the affirmative. Coincidentally, 52 percent would consider joining if asked.

9. Board Practices and Policies (Table 8)

For the tenth consecutive year, study respondents average eight regular board meetings per year (Table 8A). Banks and other financial institutions meet most frequently, averaging 10 times per year.

As in 1985, an outside director this year spent an average of 114 hours, including time for review, preparation and travel in addition to meetings (Table 8B). Twenty-three percent of respondents reported devoting more than 130 hours to board-related activities.

Once again, there is a direct correlation between company size and time devoted to board matters. The largest industrials (\$5 billion-and-over

corporations) demanded 153 hours of their outside directors, compared with an average of 94 hours for the smallest industrials (under \$200 million). In addition to the large industrials (\$3 billion and over), banks and other financial institutions, insurance companies and service corporations all increased time spent on board activities over last year's averages (Table 8B).

Predictably, chairmen spend considerably more time on board duties than their directors, and devoted an average of 175 hours in 1986, up from 164 hours in 1985. Chairmen of the smallest industrial companies reported a low of 120 hours. The billion-dollar-plus corporate chairmen reported spending an average of 181 hours. Time spent on board duties rose to 216 hours among the chairmen of the \$5 billion-and-over firms.

If compensated on an annual plus per-meeting fee basis, outside directors earned an average of \$179 per hour this year, up from \$173 last year, and up from the 1982 hourly rate of \$138. As in the past, the highest hourly rate, \$245 per hour, went to directors of retailing companies. Again, insurance companies paid the lowest, \$141 per hour.

With committee fees taken into account, the overall average hourly rate for outside directors was \$208.

10. Locating Outside Directors (Table 9)

Outside directors resigned from the boards of 29 percent of responding companies during the past year. Retirement was again the major reason for resignation, but this year only 26 percent of our respondents cited it, a decrease from 55 percent in 1985 and 63 percent in 1982. As a reason for resignation, time demands increased to 26 percent, followed by potential for conflict of interest, cited by 20 percent, each increasing from 16 percent in 1985. Banks and financial institutions had the highest percentage of outside director resignations with 41 percent.

Forty-nine percent of the respondents named one or more new outside directors to their boards during the past year, down from 51 percent in 1985. Twenty-four percent added new inside directors (Table 9A).

To fill board vacancies, the respondents continue to rely predominantly on recommendations by the chairman and by other board members (81 percent). Fifty-eight percent reported use of the nominating committee to identify and select new directors, a decrease from 64 percent in 1985, but about the same as reported in 1984 (Table 9B). That percentage rose to 68 percent among the billion dollar corporations and to 78 percent among the \$5 billion-and-over corporations.

Respondents mentioned recommendations of other corporate officers (38 percent) and referrals from executive acquaintances (11 percent) to fill board slots, about the same levels reported in 1985. The use of executive search firms was cited by 12 percent of the total respondents, and 17 percent of the billion dollar companies (Table 9B). Of the largest

industrials, 26 percent used executive search as a means of finding new board members, up dramatically from 15 percent in 1985.

As in 1985, ninety percent of the respondents this year cited broad management experience as the primary consideration in selecting prospective directors, followed by personal stature (59 percent). Strong financial skills and specific industry experience were cited equally as important qualities by 34 percent of the respondents.

Twenty-two percent of this year's respondents noted that board candidates declined to serve on their boards, up from 20 percent last year, and 18 percent in 1982 (Table 9C). Retailers experienced the most refusals (32 percent), nearly double the 17 percent reported last year.

Time commitment, cited by 65 percent of the respondents, is the predominant reason given for declining an invitation to serve on corporate boards, up from 60 percent in 1985, but it was less of a factor than in 1982 when it was the primary cause for 70 percent of the refusals. For companies with revenues of more than \$5 billion, 92 percent mentioned time commitment as the primary reason for declining to serve on boards, up from 72 percent last year. Serving on too many boards and a conflict of interest were cited by 29 percent and 22 percent of the respondents respectively. The issue of rising legal liability jumped from three percent in 1985 to 14 percent this year (Table 9C).

Seventy-seven percent of respondents have a mandatory retirement age policy for directors. Only 49 percent of companies with revenues under \$200 million have such a policy, compared with 89 percent of the billion dollar companies and 97 percent of the \$5 billion-and-over companies. For the 11th consecutive year, the average retirement age for outside directors remains 70. Similar to last year, the average age for inside directors is 67, and 69 for board chairmen.

The average age of the CEO is 57 and 59 for the respondents' outside directors. The average age of the youngest outside director is 48; the oldest, 69.

11. Board Issues (Table 10)

When asked to rank the relative importance of the issues facing corporate boards today, 51 percent of the respondents ranked financial results as the most significant issue. Seventy-five percent ranked it among the top two issues and 86 percent among the top three.

Strategic planning was the second most important issue, ranked most important by 21 percent and in the top three by 66 percent. Financing/capitalization was ranked #1, #2 or #3 by 28 percent.

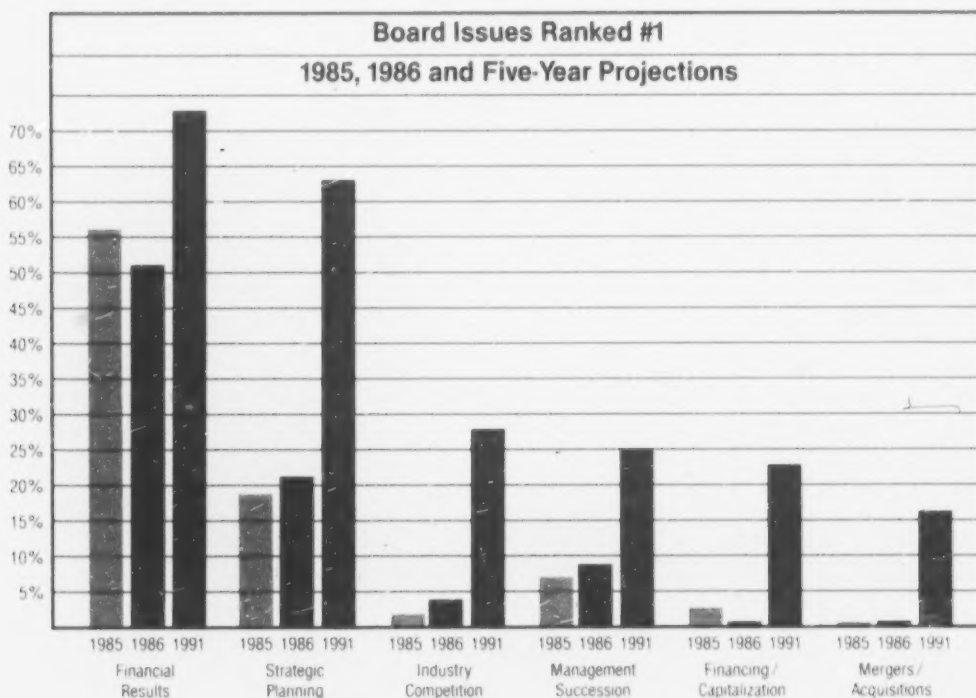
Other issues of significance to boards include management succession, which was ranked in the top three by 27 percent of the respondents, up

from 20 percent in 1985. Industry competition, both domestic and global, was cited by 20 percent (Table 10).

Corporations continued to show a drop in concern for day-to-day operations since 1984 (30 percent) and 1985 (24 percent) to 18 percent in 1986. The smallest industrials, with revenues under \$200 million, were the most concerned with day-to-day operations (29 percent) compared with only 12 percent of the billion dollar corporations.

Seventy-five percent of the respondents spend the most board time on issues related to financial results. Forty-nine percent are most occupied with strategic planning, followed by the issues of mergers and acquisitions and day-to-day operations (each 15 percent). Yet, 24 percent of the smallest industrials spend time on day-to-day operations and 22 percent on mergers and acquisitions.

Seventy-three percent of the companies believe that five years from now the top issue will be financial results, up substantially from the 57 percent who ranked it first last year. Strategic planning was projected to be the most important board issue in 1991 by 63 percent and industry competition by 28 percent.



12. Participating Companies (Table 11)

- Size of Participating Companies (Table 11A)
- Stock Exchange of Participating Companies (Table 11B)
- Type of Participating Companies (Table 11C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS**What is the present number of board members?**

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under \$200 million	2	6	8
\$200 million-\$399 million	3	7	10
\$400 million-\$599 million	4	7	11
\$600 million-\$999 million	3	8	11
\$1 billion-\$2.999 billion	3	10	13
\$3 billion-\$4.999 billion	4	10	14
\$5 billion and over	4	11	15
Banks and other financial institutions	4	14	18
Insurance companies	3	12	15
Retailers	4	9	13
Service companies	3	8	11
Average	3	10	13

TABLE 2—CHAIRMAN ALSO CEO, CEO ALSO COO**Is the Chairman of the Board also the Chief Executive Officer?****Is the Chief Executive Officer also the Chief Operating Officer?**

	Chairman/CEO %	CEO/COO %
Yes	77.3%	38.3%
No	21.4%	59.4%
No response	1.3%	2.3%
TOTAL	100.0%	100.0%

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	% 1982	% 1985	% 1986
CEO/COO of other companies	—	—	74.2%
Retired executive (other companies)	66.3%	68.2%	67.4%
Academician	50.4%	54.5%	49.7%
Senior executive (other companies)	88.2%	81.8%	46.0%
Woman	41.2%	45.0%	42.9%
Retired or previously employed corporate officer	46.8%	46.4%	40.2%
Attorney (does not provide legal services for the company)	33.7%	31.5%	35.3%
Major shareholder (not officer of the company)	30.4%	29.4%	30.9%
Ethnic minority member	23.2%	25.4%	29.5%
Former government official	27.2%	29.6%	27.6%
Commercial banker	33.6%	30.8%	25.0%
"Professional" director	19.5%	28.2%	25.0%
Investment banker	23.7%	24.2%	24.3%
Attorney (provides legal services for the company)	28.2%	24.9%	23.7%
Non-U.S. citizen	17.0%	14.0%	13.0%
International executive (American)	7.5%	8.7%	6.2%
Consumer group representative	—	1.7%	1.4%
Employee representative	—	2.2%	1.0%

— FIVE-YEAR TREND —

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	29.4%	29.6%
Senior executives (other companies)	18.6%	11.8%
Former government officials	14.5%	7.2%
CEO/COO (other companies)	12.2%	19.7%
Major shareholders (not officers of the company)	8.6%	1.3%
Attorneys (do not provide legal services)	7.2%	14.5%

TABLE 4—COMMITTEES**4A. Which of the following standing committees does the board have?**

Committee	% 1982	% 1985	% 1986
Audit	98.2%	97.2%	97.5%
Compensation/Personnel	86.3%	82.2%	90.5%
Executive	78.4%	78.2%	80.4%
Nominating	56.6%	59.2%	57.9%
Finance	35.7%	38.2%	34.6%
Benefits	32.9%	36.5%	25.0%
Public affairs	11.8%	10.6%	9.9%
Corporate ethics	8.0%	5.9%	7.2%
Science/Technology	—	2.4%	3.7%

└ FIVE-YEAR TREND ┘

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation/Personnel	0	4	4
Executive	2	3	5
Nominating	1	4	5
Finance	2	4	6
Benefits	0	4	4
Public affairs	1	5	6
Corporate ethics	1	4	5
Science/Technology	1	4	5

4C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number of Meetings	1985 Average Number of Meetings	1986 Average Number of Meetings
Audit	3	3	4
Compensation/Personnel	4	4	4
Executive	4	4	5
Nominating	2	2	2
Finance	4	5	7
Benefits	3	3	3
Public affairs	3	3	3
Corporate ethics	2	2	3
Science/Technology	—	2	4

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TABLE 5—COMPENSATION**5A. How are board members compensated?**

Compensation	% 1982	% 1985	% 1986
Annual plus per-meeting fee (see Table 5B and 5C for amounts) . . .	84.8%	85.6%	83.1%
Annual fee only	11.8%	10.4%	9.7%
Per-meeting fee only	2.5%	1.9%	3.5%
No response	0.9%	2.1%	3.7%
TOTAL	100.0%	100.0%	100.0%

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5B. Annual Plus Per-Meeting Fee

Total Average Annual Compensation	% 1982	% 1985	% 1986
Under \$7,000	5.5%	2.3%	2.3%
\$7,000–\$10,999	15.7%	8.7%	7.0%
\$11,000–\$13,999	16.3%	11.3%	10.0%
\$14,000–\$16,999	16.9%	13.2%	15.9%
\$17,000–\$19,999	14.5%	15.5%	14.3%
\$20,000–\$24,999	20.0%	25.5%	25.9%
\$25,000 and over	11.1%	23.5%	24.6%
TOTAL	100.0%	100.0%	100.0%
Average Total Annual Compensation	\$16,990	\$19,544	\$20,462

└ FIVE-YEAR TREND ┘

**5C. Annual Plus Per-Meeting Fee
(continued)**

Type and Size of Company	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
Industrials			
Under \$200 million	\$ 8,720	\$14,207	\$22,768
\$200 million–\$399 million	\$11,900	\$15,560	\$22,386
\$400 million–\$599 million	\$14,580	\$17,011	\$22,060
\$600 million–\$999 million	\$15,430	\$20,593	\$27,188
\$1 billion–\$2.999 billion	\$18,300	\$21,279	\$27,223
\$3 billion–\$4.999 billion	\$26,760	\$26,447	\$32,270
\$5 billion and over	\$24,960	\$28,820	\$34,671
Banks and other financial institutions . . .	\$15,310	\$18,471	\$27,519
Insurance companies	\$13,950	\$18,863	\$26,530
Retailers	\$16,950	\$22,249	\$30,875
Service companies	—	\$20,653	\$28,542
Average	\$16,990	\$20,462	\$28,715

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TABLE 6—COMMITTEE COMPENSATION**6A. What is the average committee fee for outside directors?**

Committee	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	\$626	\$3,845
Compensation/Personnel	\$621	\$3,325
Executive	\$631	\$5,190
Nominating	\$625	\$2,839
Finance	\$658	\$5,290
Benefit	\$589	\$2,886

6B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1986 Average	1986 Upper Quartile
Industrials		
Under \$200 million	\$15,290	\$24,483
\$200 million-\$399 million	\$17,110	\$25,113
\$400 million-\$599 million	\$19,700	\$28,875
\$600 million-\$999 million	\$22,414	\$31,875
\$1 billion-\$2.999 billion	\$25,146	\$31,895
\$3 billion-\$4.999 billion	\$31,399	\$39,121
\$5 billion and over	\$36,548	\$48,428
Banks and other financial institutions . . .	\$21,500	\$33,168
Insurance companies	\$24,406	\$38,073
Retailers	\$25,999	\$41,663
Service companies	\$23,482	\$34,907
Average	\$23,676	\$35,960

TABLE 7—ADDITIONAL COMPENSATION INFORMATION**7A. Has board compensation been raised within the last 12 months?**

	% 1985	% 1986
Yes	34.1%	39.1%
No	64.0%	59.0%
No response	1.9%	1.9%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	1985 Increase	1986 Increase
Industrials		
Under \$200 million	\$1,961	\$2,623
\$200 million-\$399 million	\$2,350	\$4,107
\$400 million-\$599 million	\$1,900	\$2,000
\$600 million-\$999 million	\$1,768	\$2,996
\$1 billion-\$2.999 billion	\$2,640	\$2,310
\$3 billion-\$4.999 billion	\$2,656	\$3,503
\$5 billion and over	\$3,434	\$3,240
Banks and other financial institutions ...	\$2,732	\$3,235
Insurance companies	\$3,171	\$2,626
Retailers	\$4,492	\$2,614
Service companies	\$2,709	\$2,767
Average	\$2,777	\$2,923

7B. Do you contemplate raising board compensation in the next year?

	% 1985	% 1986
Yes	25.5%	24.5%
No	66.9%	65.4%
No response	7.6%	10.1%
TOTAL	100.0%	100.0%

7C. How much did the highest paid director receive in 1986 for all board services exclusive of any consulting arrangement?

Type and Size of Company	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
Industrials			
Under \$200 million	\$11,120	\$18,075	\$27,639
\$200 million-\$399 million	\$16,940	\$20,111	\$31,534
\$400 million-\$599 million	\$15,750	\$19,288	\$26,900
\$600 million-\$999 million	\$17,460	\$25,526	\$38,211
\$1 billion-\$2.999 billion	\$24,090	\$29,297	\$41,511
\$3 billion-\$4.999 billion	\$30,580	\$37,184	\$50,677
\$5 billion and over	\$36,200	\$48,366	\$81,151
Banks and other financial institutions ...	\$20,700	\$28,962	\$48,706
Insurance companies	\$21,420	\$30,756	\$54,626
Retailers	\$18,980	\$27,051	\$46,080
Service companies	—	\$27,890	\$43,353
Average	\$21,720	\$28,572	\$46,665

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7D. Who is primarily responsible for establishing board compensation?

	%
Chairman	58.8%
Compensation committee	37.7%
Nominating committee	11.3%
Executive committee	10.7%

7E. What benefits are included in the compensation plan for outside directors?

	% 1982	% 1985	% 1986
Travel expense reimbursement	86.4%	95.8%	91.5%
Directors' liability insurance	85.6%	93.4%	84.1%
Deferral of board fees until retirement	55.3%	67.5%	66.8%
Matching educational gifts program	40.1%	50.3%	47.2%
Accident insurance	43.4%	48.6%	41.2%
Pension/Retirement income plan	14.0%	25.8%	25.4%
Life insurance	18.8%	23.4%	23.3%
Travel expenses for spouse	23.7%	27.2%	22.7%
Medical insurance	10.5%	10.6%	12.6%
Stock options	—	3.1%	8.2%

7F. Have your directors' liability insurance premiums been increased?

	% 1985	% 1986
Yes	68.2%	82.1%
No	26.1%	10.7%
No response	5.7%	7.2%
TOTAL	100.0%	100.0%

7G. Has your total dollar coverage been decreased?

	% 1985	% 1986
Yes	27.3%	50.3%
No	67.3%	39.8%
No response	5.4%	9.9%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	Premiums % Increase	Dollar Coverage Decrease in Thousands	
		From	To
Industrials			
Under \$200 million	796%	\$30,727	\$14,364
\$200 million-\$399 million	305%	\$20,500	\$ 8,929
\$400 million-\$599 million	577%	\$38,750	\$18,125
\$600 million-\$999 million	558%	\$33,235	\$18,000
\$1 billion-\$2.999 billion	446%	\$42,586	\$21,179
\$3 billion-\$4.999 billion	670%	\$65,917	\$45,091
\$5 billion and over	489%	\$99,250	\$63,250
Banks and other financial institutions ...	462%	\$38,290	\$22,484
Insurance companies	670%	\$33,188	\$16,813
Retailers	744%	\$34,500	\$24,333
Service companies	706%	\$41,077	\$23,731
Average	570%	\$42,143	\$23,968

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	16.1%
5-6	31.7%
7-9	18.8%
10-12	28.4%
13 and over	1.7%
No response	3.3%
TOTAL	100.0%
Average	8 meetings

8B. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	% 1985	% 1986
Under 40	4.7%	4.7%
40-70	20.6%	19.8%
71-100	23.5%	24.3%
101-130	17.5%	20.1%
131-160	9.9%	10.1%
161-190	5.5%	5.4%
191 and over	7.4%	7.6%
No response	10.9%	8.0%
TOTAL	100.0%	100.0%
Average	114 hours	114 hours

Hours (continued)

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under \$200 million	94	149
\$200 million-\$399 million	99	184
\$400 million-\$599 million	106	200
\$600 million-\$999 million	120	215
\$1 billion-\$2.999 billion	109	174
\$3 billion-\$4.999 billion	137	249
\$5 billion and over	153	254
Banks and other financial institutions	107	183
Insurance companies	134	296
Retailers	86	134
Service companies	108	197
Average	114	204

TABLE 9—LOCATING OUTSIDE DIRECTORS**9A. How many new directors were added during the past year?**

Number Added	% Inside Directors	% Outside Directors
None	75.9%	51.5%
One	17.3%	31.6%
Two	5.2%	11.5%
Three or more	1.6%	5.4%
TOTAL	100.0%	100.0%

9B. How are outside directors located for the board?

	% 1982	% 1985	% 1986
Recommendation of chairman	78.1%	81.3%	80.6%
Recommendation of board members	75.5%	77.3%	80.8%
Nominating committee	51.9%	63.7%	57.9%
Recommended by other corporate officers	37.5%	37.4%	37.7%
Executive search	9.2%	10.9%	12.0%
Referral from executive acquaintances	11.5%	11.4%	11.1%
Bank referral	1.2%	2.1%	1.6%
Referral from attorneys	2.0%	1.6%	2.3%

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9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1982	% 1985	% 1986
Yes	18.1%	20.4%	22.2%
No	78.7%	77.7%	75.7%
No response	3.2%	1.9%	2.1%
TOTAL	100.0%	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1982	% 1985	% 1986
Time commitment	70.0%	60.2%	64.9%
On too many boards	30.9%	28.8%	28.9%
Conflict of interest	21.8%	21.2%	21.9%
Increasing legal liability	—	2.5%	14.2%

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	50.9%	75.1%	85.8%
Strategic planning	20.6%	46.6%	66.2%
Financing/Capitalization	1.2%	11.1%	28.3%
Management succession	9.1%	17.5%	26.6%
Industry competition	3.7%	9.7%	19.8%
Mergers/Acquisitions	1.4%	8.2%	18.3%
Day-to-day operations	6.6%	11.7%	17.5%
Corporate takeovers	2.1%	5.8%	9.3%
Shareholder relations	0.4%	2.7%	5.8%
Executive compensation	0.0%	1.2%	3.9%
Governmental relations	0.0%	1.0%	2.3%
Communications/Public relations	0.0%	0.0%	1.7%
Environmental issues	0.4%	1.4%	1.7%
Multinational issues	0.0%	0.4%	1.0%
Ethics/White-collar crime	0.4%	0.6%	0.6%

TABLE 11—PARTICIPATING COMPANIES**11A. Size of Participating Companies**

	Number of Companies	%
Industrials		
Under \$200 million	23	4.3%
\$200 million–\$399 million	43	8.1%
\$400 million–\$599 million	30	5.6%
\$600 million–\$999 million	41	7.7%
\$1 billion–\$2.999 billion	68	12.8%
\$3 billion–\$4.999 billion	29	5.5%
\$5 billion and over	55	10.3%
Banks and other financial institutions	83	15.6%
Insurance companies	51	9.6%
Retailers	24	4.5%
Service companies	85	16.0%
TOTAL	532	100.0%

11B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	66.3%
American Stock Exchange	4.9%
Over-the-counter	18.9%
Other (private, mutual)	9.9%
TOTAL	100.0%

11C. Type of Participating Companies

	%
Industrial	54.3%
Banks and other financial institutions	15.6%
Insurance	9.6%
Retail	4.5%
Service	16.0%
TOTAL	100.0%

*This year 1,000 companies were asked to participate. There were 532 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.

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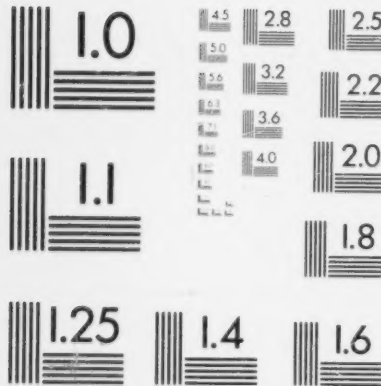
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